

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 L-03 FRB-03

OMB-01 ITC-01 SP-02 USIA-06 AGRE-00 AID-05

CIAE-00 COME-00 INR-10 LAB-04 NSAE-00 OIC-02

SIL-01 STR-07 TRSE-00 CEA-01 SS-15 OES-07 PA-01

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R 140938Z MAR 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 2923

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY LAPAZ

AMEMBASSY LONDON

USMISSION GENEVA

C O N F I D E N T I A L KUALA LUMPUR 2139

HONG KONG FOR DAS GLEYSTEN

E.O. 11652: GDS

TAGS: ECON, US, MY

SUBJECT: MALAYSIAN VIEWS ON COMMON FUND AND COMMODITY ISSUES

1. EA DEPUTY ASSISTANT SECRETARY GLEYSTEN, ACCOMPANIED BY AMBASSADOR, CALLED ON MINISTER OF PRIMARY INDUSTRIES, DATO TAIB MAHMUD, MARCH 13 FOR A GENERAL VIEW OF GOM COMMODITY POLICIES. TAIB'S COMMENTS WERE FAIRLY UNSURPRISING AND HE BROKE NO NEW GROUND. HE COVERED THE FOLLOWING:

A. HE REITERATED MALAYSIA'S SUPPORT FOR THE COMMON FUND, AND NOTED WITH APPROVAL THAT THE CONCEPT OF A COMMON FUND HAD BEEN ACCEPTED BY THE GROUP B COUNTRIES. HE ACKNOWLEDGED THAT THE FUND MUST BE GOVERNED BY PRODUCER AND CONSUMER COUNTRIES ALIKE, AND THAT THERE SHOULD BE ONGOING MACHINERY INVOLVING
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BOTH PRODUCERS AND CONSUMERS. HE ALSO RECOGNIZED THAT THE DEGREE TO WHICH THE FUND WAS USED FOR "OTHER MEASURES" BEYOND THE STABILIZATION OF COMMODITY PRICES IS SUBJECT TO NEGOTIATION. HE INDICATED THAT, WITH THE COMMON FUND IN MIND, MALAYSIA WOULD BE LOOKING TO SEE HOW THE INTERNATIONAL TIN COUNCIL WORKS OUT.

B. TURNING TO TIN, TAIB SAID HE BELIEVED THE QUESTION

OF EXPORT TAXES SHOULD BE REMOVED FROM INTERNATIONAL DISCUSSION. MALAYSIA DID NOT EXPECT TO RAISE THOSE TAXES, BUT NEITHER DID IT EXPECT TO REDUCE THEM, AS IT WAS THE PRINCIPAL WAY THAT THE EXPLOITATION OF A DECLINING ASSET COULD BE USED FOR THE BENEFIT OF THE MALAYSIAN PEOPLE AS A WHOLE. RATHER THAN INCREASING TAX REVENUES, THE GOM WOULD LOOK TO UPWARD REVISIONS IN THE TIN PRICE, REFLECTING INFLATION, INCREASED COSTS OF PRODUCTION, NEW TECHNOLOGY, ETC. HE NOTED THAT MALAYSIA HAS THE LOWEST PRODUCTION COSTS OF ANY PRODUCING COUNTRY, AND THAT THE LOWEST COSTS ATTACHED TO EXISTING MINES, WHERE NEW TECHNOLOGY MADE POSSIBLE REPEATED MINING EFFORTS. MOREOVER, OPENING UP NEW MINES REQUIRED OPENING UP NEW LANDS AND THUS GREATER INVESTMENT; NEW ORE SEEMS WERE DEEPER REQUIRING AGAIN NEW AND MORE EXPENSIVE TECHNOLOGY. THUS THE FLOOR PRICE OF TIN MUST GO UP TO ENCOURAGE NEW INVESTMENT. TAIB OBSERVED THAT IF THE PRICE OF TIN DROPPED, A LARGE NUMBER OF SMALL GRAVEL PUMP OPERATORS WOULD GO OUT OF BUSINESS INSTANTLY, NEVER TO RETURN IF LOWERED PRICES LASTED FOR MORE THAN A YEAR. THIS WOULD REDUCE PRODUCTION EVEN FURTHER.

C. TAIB REFERRED TO THE NEW U.S. PROPOSAL TO DISPOSE OF 45,000 TONS OF TIN FROM OUR STRATEGIC STOCKPILE (THE UDALL-DE-CONCINI BILL). HE WELCOMES THIS AS A CLEARLY POSITIVE MOVE BY THE U.S., BUT HE EXPRESSED CONCERN THAT THE DISPOSAL TAKE PLACE IN PHASE WITH MARKET CONDITIONS. THE AMBASSADOR ASSURED HIM THAT, ONCE THAT PROPOSAL HAD CONFIDENTIAL

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LEGISLATIVE BACKING, WE WOULD CONSULT FULLY WITH PRODUCERS AND CONSUMERS, AS WELL AS THE ITC.

D. REGARDING RUBBER PRODUCTION, TAIB SAID THE GOM CALCULATED THAT THE WORLD RUBBER MARKET WOULD NEED 500,000 TONS MORE IN PRODUCTION BY 1985. HE SAID MALAYSIA WAS SEEKING TO ATTRACT ARAB INVESTMENT IN NEW RUBBER PLANTATIONS AND THAT, IN TURN MALAYSIA WAS HELPING INDONESIA, THAILAND, BANGLADESH AND VIETNAM TO IMPROVE THEIR RUBBER INDUSTRIES. 2. AFTER GLEYSTEN AND AMBASSADOR DEPARTED FROM TAIB'S OFFICE, TAIB APPARENTLY RELEASED A STATEMENT TO THE PRESS INDICATING THAT MALAYSIA HAS "MADE CLEAR" TO THE U.S. THAT SHOULD THE U.S. RELEASE 45,000 TONS OF TIN INTO THE MARKET "IT SHOULD BE PLANNED IN A MANNER THAT WILL NOT DAMPEN THE PRICE OF THE METAL ON THE WORLD MARKETS". TAIB'S STATEMENT INDICATED THIS VIEW HAD BEEN MADE KNOWN BY TAIB TO GLEYSTEN DURING THE LATTER'S CALL ON HIM, AND THAT "THE U.S. REPRESENTATIVE" HAD REPLIED THAT USG WOULD CONSULT THE ITC "ON THE METHODS OF RELEASING THE STOCKPILE". THE STATEMENT WENT ON TO SAY THAT THE GOM WOULD BE WATCHING CLOSELY U.S. ACTION IN THIS REGARD, AND THAT ANY DAMPENING OF THE PRICE WOULD HAVE SERIOUS CONSEQUENCES ON PRODUCTION. COMMENT: THE GLEYSTEN CALL AND TAIB'S STATEMENT WERE

MAJOR STORIES ON THE LOCAL EVENING TV NEWS AND IN THIS
MORNING'S LOCAL PRESS. WHILE TAIB DID NOT INDICATE HE
PLANNED TO USE GLEYSTEN'S CALL IN THIS WAY, HIS STATEMENT
AND THE STORES GENERATED EMPHASIZE A GOM "WAIT AND SEE"
POSITION ON OUR TIN SALE PROPOSAL FOR PUBLIC CONSUMPTION
HERE IN A PRE-ELECTION PERIOD.
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